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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	
Federal-State Joint Board on Universal Service	CC Docket No. 96-45
Forward-Looking Mechanism for High Cost Support For Non-Rural LECs	CC Docket No. 97-160 (DA-98-848)

REPLY COMMENTS OF BELL ATLANTIC[1]

It is clear from the comments on proxy model inputs that neither of the models currently before the Commission is capable of accurately estimating the forward-looking costs of providing universal service. The model proponents seek to cure the continuing deficiencies in their models by requiring others, primarily the incumbent local exchange carriers, to provide additional data about customer locations and wire center characteristics as inputs for the models. These requests should be denied, both because the collection of such data would be extremely burdensome, and because the data would not make the model outputs any more accurate given the fundamental limitations of the model algorithms.

[1] The Bell Atlantic telephone companies ("Bell Atlantic") are Bell Atlantic-Delaware, Inc.; Bell Atlantic-Maryland, Inc.; Bell Atlantic-New Jersey, Inc.; Bell Atlantic-Pennsylvania, Inc.; Bell Atlantic-Virginia, Inc.; Bell Atlantic-Washington, D.C., Inc.; Bell Atlantic-West Virginia, Inc.; New York Telephone Company; and New England Telephone and Telegraph Company.

Since the proxy models are incapable of determining costs with any degree of accuracy, the Commission should abandon its current plan to develop high cost support by comparing proxy model costs at the wire center level to a revenue benchmark. As Bell Atlantic proposed in its recent comments on alternatives plans for high cost support, the Commission should use a blend of actual costs and the proxy model outputs at the state-wide level solely for the purpose of identifying states that have above-average costs, and that need additional support from the interstate jurisdiction in order to maintain universal service. Such a funding mechanism can, and should, rely on a cost benchmark, rather than a revenue benchmark, to identify states with above-average costs.

I. Requiring The Local Exchange Carriers To Provide Customer Location Data Would Be Onerous, And Would Not Cure The Defects In The Cost Proxy Models.

The comments filed by the sponsors of the two cost proxy models currently under consideration in this proceeding demonstrate that, despite years of development and countless revisions, the models will never achieve the Commission's objective of determining the forward-looking cost of providing universal service. The models continue to depict hypothetical networks that do not represent the forward-looking costs of either the incumbent local exchange carriers or new entrants. For example, the HAI model clings to an obsolete copper T-1 based outside plant that even the sponsors admit is not being constructed by the local exchange carriers on a going-forward basis, and that clearly has no relevance to the fiber-based and wireless networks that new entrants are

building.[2] In addition, the models still ignore real world constraints on the design and construction of outside plant in favor of mathematical constructs based more on geometry than geography. Neither model pretends to portray a network that actually has been built, or ever will be built.

A key fault in the current models is the failure to rely on actual customer locations. The HAI sponsors claim that the BCPM model is inferior because it cannot incorporate data on the precise longitude and latitude ("geocode") of customer locations. AT&T/MCI at 3. However, the HAI model takes geocoded data and then discards it by moving customers to *hypothetical* locations on *hypothetical* lots on *hypothetical* streets. SBC at 5; GTE at 5 and Exhibit 1. BellSouth/US West/Sprint ("BCPM sponsors") at 2-3. Neither model is capable of using data on actual customer locations to estimate the cost of building outside plant. Moreover, the currently-available geocoded data are incomplete for the most critical customer segment, customers who live in high-cost rural areas. BCPM sponsors at 2-3.

Both model proponents seek to cure the shortcomings of their models by requiring others, primarily the local exchange carriers, to provide additional data. The HAI sponsors want the local exchange carriers to provide data about their wire center boundaries, customer locations, and line counts within those boundaries. AT&T/MCI at 8. The BCPM sponsors want the Commission to require the local exchange carriers to provide either geocoded customer locations using global positioning satellite equipment,

[2] ***See*** GTE at 12-13, citing AT&T testimony in state regulatory proceedings.

or data on the longitude and latitude of outside plant distribution terminals from carrier engineering maps. BCPM sponsors at 2-4.

These requests should be denied. First, they would be extremely burdensome. The responses to the earlier bureau request concerning the availability of geocoded data show that most local exchange carriers, like Bell Atlantic, do not maintain or possess such data for either customer locations or distribution terminals. As GTE points out, it would be prohibitively expensive to require the local exchange carriers to create geocoded data using global positioning satellite equipment.[3] Second, release of actual line count demand at each customer location would reveal competitively sensitive data about market share and customer demand.

More significant is the fact that such data would not make the model outputs any more accurate, because the model algorithms are not designed to rely on actual data. Rather, as is shown in the HAI model, they take such data and then process it into hypothetical locations that can be used by the model algorithms, which destroys the accuracy of the data inputs. Unless the models were changed fundamentally to design outside plant using actual customer locations, such data would be useless in determining the forward-looking costs of providing universal service. The Commission should not require the local exchange carriers to go through the burdensome effort of producing new data inputs in a futile effort to overcome the inherent flaws in the models.

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[3] GTE at 7-8. GTE estimates that it would cost approximately $47.5 million to geocode all of its customer locations using global positioning satellite units. If the Commission were to require the local exchange carriers to undergo this effort, it would have to allow the carriers to recover the costs from the universal service fund. Any other result would be confiscatory.

II. The Commission Should Rely On A Cost Benchmark To Target Support To High Cost States.

There is wide disagreement over how a revenue benchmark should be used to determine the amount of universal service support. Some commenters argue that a revenue benchmark should include revenues from a broad range of services, including local exchange service, toll, discretionary services, interstate and interstate access, and even yellow pages directory publishing. AT&T/MCI at 16-17; Ad Hoc at 2-4. Others argue that revenues from discretionary, toll, and access services should be excluded, because such services allegedly include implicit subsidies. GTE at 27-28; BellSouth at 11; Sprint at 4-6. Still others argue for an affordability-based revenue benchmark equivalent to 1 percent of county income levels. SBC at 28.

The wide range of issues raised in these comments demonstrates the benefits of adopting a cost benchmark, rather than a revenue benchmark. A revenue benchmark raises difficult issues concerning the relationship between rates and costs for each service, and it requires the Commission to second-guess the ratemaking decisions of the state regulatory commissions. A nationwide average cost benchmark, as proposed by the Ad Hoc Working Group in its April 27, 1998 proposal, provides a straightforward way of determining which states need additional support from the interstate fund in order to maintain universal service within those states. States with costs above the national average have greater difficulty in maintaining universal service through intrastate funding mechanisms. A nationwide average cost benchmark will allow the Commission to target these states for federal support. By using a cost benchmark, the Commission could avoid

making judgments about the levels of state rates and about the means by which each state promotes universal service.

The Commission should not include an affordability factor in the benchmark, regardless of whether the benchmark is based on revenues or costs. Insofar as an affordability benchmark would be designed to target support to low income customers, this already has been done more directly, and more effectively, through the enhanced Lifeline program, the Link-up America program, and the other measures that the Commission has adopted for low income customers. The states can address the broader issues of affordability through state universal service mechanisms, with supplemental support from the federal universal service fund.

III. Conclusion

The Commission should not attempt to cure the deficiencies of the proxy models by imposing burdensome data production requirements on the local exchange carriers. Given the inherent flaws in the models, the Commission should modify its universal service funding mechanism to follow the Ad Hoc Working Group proposal, with the modifications proposed by Bell Atlantic. This would place less emphasis on proxy model results and do a better job of targeting support to states that need federal assistance.

Respectfully submitted,

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Dated: June 12, 1998

CERTIFICATE OF SERVICE

I hereby certify that on this 11th day of June, 1998 a copy of the foregoing "Reply Comments of Bell Atlantic" was sent by first class mail, postage prepaid, to the parties on the attached list.

Jennifer L. Hoh

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* Via hand delivery.

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